

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 L-03 H-01

NSC-05 SS-15 STR-04 CEA-01 PA-01 PRS-01 OES-07

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4057

INFO AMEMBASSY MOSCOW

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

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E.O. 11652: N/A

TAGS: ETRD EEWT EFIN ECEM UK UR

SUBJECT: UK FIRM WINS RECORD USSR CONTRACT

REF: (A) LONDON 4577, (B) 76 LONDON 20868

1. THE LARGEST CONTRACT EVER COMPLETED BETWEEN THE UK AND THE USSR WAS SIGNED MAY 17 WHEN DAVY POWERGAS AGREED TO SUPPLY TWO COMPLETE METHANOL PLANTS TO THE SOVIET UNION FOR A COST OF \$250-300 MILLION. THE FINANCING IS BEING ARRANGED BY MORGAN GRENFELL UNDER THE EXISTING 950 LIMITED OFFICIAL USE

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MILLION POUND ANGLO-SOVIET CREDIT AGREEMENT OF 1975, BUT THE INTERESTING FEATURE IS THAT THE DOLLAR-DENOMINATED CONTRACT IS ONLY THE SECOND MAJOR BRITISH CONTRACT UTILIZING ECGD-GUARANTEED FOREIGN CURRENCY FINANCING ARRANGEMENTS. THE FINANCIAL PRESS HERE CONSIDERS THE FINANCIAL PACKAGE TO HAVE PROVIDED THE WINNING MARGIN TO THE UK FIRM OVER ITS FRG COMPETITOR BIDDING IN DEUTSCHEMARKS.

2. CONTRACT DETAILS HAVE NOT YET BEEN FINALIZED, BUT THE FOLLOWING ARE THE GENERAL OUTLINES OF THE AGREEMENT. DAVY POWERGAS, A SUBSIDIARY OF DAVY INTERNATIONAL, WILL DESIGN, ENGINEER AND SUPERVISE CONSTRUCTION OF THE COMPLETE PLANTS ON A TURN KEY BASIS USING A "LOW PRESSURE TECHNOLOGY" DEVELOPED BY IMPERIAL CHEMICAL INDUSTRIES (ICI) TO PRODUCE METHANOL FROM NATURAL GAS. WHEN COMPLETED IN APPROXIMATELY FOUR YEARS, THE COMBINED TWO-PLANT OUTPUT OF 5,000 TONS A DAY WILL BE OFFERED FOR SALE ON WORLD MARKETS AND UTILIZED BY ICI AND KLOCKNER INA OF THE FRG UNDER BUY-BACK AGREEMENTS. WE UNDERSTAND ONE PLANT WILL BE LOCATED IN THE URALS AND THE OTHER IN SIBERIA AND THAT THEY WILL BE THE WORLD'S LARGEST PLANTS PRODUCING METHANOL FROM NATURAL GAS.

3. THE SIGNING OF THE CONTRACT MEANS THAT APPROXIMATELY ONE-THIRD OF THE 950 MILLION POUND UK CREDIT EXTENDED TO THE USSR BY THEN-PRIME MINISTER WILSON IN 1975 HAS BEEN PICKED UP. AS DETAILED IN THE REFTELS, THE RUSSIAN FAILURE TO USE THE CREDIT TO MAKE SIGNIFICANT PURCHASES FROM BRITAIN HAD BECOME A SOURCE OF INCREASING FRICTION BETWEEN THE TWO COUNTRIES, EVEN TO THE POINT OF PRIME MINISTER CALLAGHAN CALLING IN THE SOVIET AMBASSADOR HERE FOR A VERY CANDID TALK. THE DAVY CONTRACT WILL TAKE CONSIDERABLE HEAT OUT OF THIS DISAGREEMENT. THE TIMING OF THIS CONTRACT IS CERTAINLY NOT COINCIDENTAL -- UK TRADE MINISTER DELL PLANS TO BE IN MOSCOW NEXT WEEK FOR THE ANNUAL SESSION OF THE ANGLO-SOVIET TRADE COMMISSION. LIMITED OFFICIAL USE

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4. WHILE DETAILS OF THE PROJECT'S FINANCING HAVE NOT BEEN COMPLETED, IT IS CLEAR THAT THE DOLLAR CREDIT ARRANGED BY MORGAN GRENFELL WILL BE GUARANTEED BY THE EXPORT CREDIT GUARANTEE DEPARTMENT. TO OUR KNOWLEDGE THIS IS ONLY THE SECOND CASE OF AN ECGD-GUARANTEED DOLLAR-DENOMINATED BUYER CREDIT, THE FIRST HAVING BEEN COMPLETED ONE DAY EARLIER BY MORGAN GRENFELL FOR A \$40 MILLION DEAL WITH DUBAI.

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Message Attributes

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Sent Date: 18-May-1977 12:00:00 am
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Disposition Action: RELEASED
Disposition Approved on Date:
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Disposition Date: 22 May 2009
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